

Current ECB Interest rates: **1.00%**  
**(Deposit rate: 0.25%, Marginal lending rate: 1.75%).**  
**All rates expected to remain on hold.**

Today we expect the ECB to keep rates on hold at 1.00%, and it is expected that the ECB will keep the same policy stance as last month, described as **"appropriate"** (in Trichet's press conference). At the last meeting the ECB said they **see growth at a "moderate pace"**. describe inflationary pressures as **"moderate... over the policy horizon"**. **The ECB were keen to stress that the improvement in the economy may "uneven" and the outlook remains "uncertain"**. **A key ECB buzzword, which has been used for much of this year is "bumpy road ahead" to prevent markets from getting carried away.**

Today's focus for the markets will be on whether the ECB will step in to aggressively support the peripheral debt markets and the banks that have exposure to those markets. There has been talk that the ECB will step up their bond buying programme. This has aided peripheral markets higher in the last 2 days. There is almost an unattainable expectation that the ECB will embark on a shock and awe type strategy. There is an expectation that the ECB will reverse course on their "normalisation" process of overnight interest rates. The steady exit from the liquidity measures over recent months has seen EONIA rates tighten to close to the headline interest rate. With banks under stress due to their exposure to peripheral bond markets in need of these liquidity support programmes, there has been a call for the ECB to halt their exit strategy and to commit to these refinancing operations for a longer period.

With regards to the non-standard measures, described as **"enhanced credit support" and the Securities Markets Programme**, the ECB stated that these are **"temporary in nature"**.

#### **ECB Refi tender ops. as they stand currently:**

- 1-month: fixed rate tender process**
- 3-month: fixed rate tender process**
- 6-month: ceased, was at fixed rate.**
- 12-month: ceased, was at a fixed rate.**

The highest possible tail risk would be on changes to the ECB bond buying programme. Over recent weeks peripheral debt market deterioration has led to Ireland needing a bailout, and Portugal and Spain being close to needing a bailout too. If the ECB do not embark on some form extra measures to aid the peripheral debt markets and the banks, we may see a sharp reversal of the moves seen over the last 2 days.

